

Message Text

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DRAFTED BY TREASURY:OASIA/DPPO:HSHAPIRO:CEK

APPROVED BY TREASURY:OASIA/DPPO - MR H LEE

OASIA/BDPO - R PELIKAN

OASIA/DNF - J BUSHNELL

TEFRPC - H WORTHINGTON

OS - J BENNETT

NEA/EGY - L W SEMAKIS

EB/ED/OIA - M KENNEDY

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FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 170871

E.O. 11652: GDS

TAGS: ECON, EG

SUBJECT: EGYPTIAN ARREARAGES

REFERENCE: CAIRO 5307; UNNUMBERED CABLE FROM SIMON PARTY

1. WE AGREE WITH COMMENTS ON THIS SUBJECT IN UNNUMBERED CABLE FROM SIMON PARTY (BENNETT) RESPONDING TO CAIRO'S 5307. FOLLOWING ARE CURRENT CONSOLIDATED DATA ON ARREARAGES WHICH EMBASSY SHOULD CONVEY TO CENTRAL BANK. IN SO DOING EMBASSY SHOULD STRESS IMPORTANCE OF PROMPT SETTLEMENT OF THESE ARREARAGES ALONG LINES OF REASONING CONVEYED TO EGYPTIANS IN VARIOUS MEETINGS DURING SIMON VISIT (BELOW).

2. AS OF JUNE 30, 1974, THE GOE WAS PAST DUE IN SUBMITTING
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PAYMENTS TO ALL, REPEAT ALL, USG AGENCIES WITH OUTSTANDING

CREDITS TO EGYPT. THESE ARREARAGES, WHICH REMAIN OUTSTANDING WERE DUE THE FOLLOWING AGENCIES AGRICULTURE, TOTAL DOLLARS 483,398.75, CONSISTING OF DOLLARS 20,065.61 LATE INTEREST CHARGES UNDER PL-480; DOLLARS 261,043.40 LATE INTEREST CHARGES PLUS INSTALLMENTS ON TWO COMMODITY CREDIT. EX-IM TOTAL DOLLARS 86,018.00 IN LATE INTEREST CHARGES. AID TOTAL DOLLARS 65,890.80 ON FIVE SEPARATE LOANS, OF WHICH DOLLARS 47,859.34 IS PRINCIPAL AND DOLLARS 18,031.46 IS INTEREST. ALL OF THESE SUMS, TALLING DOLLARS 635,307.55 ARE PAYABLE IN DOLLARS. IN ADDITION, THERE ARE LOCAL CURRENCY ARREARAGES ON L-4 LOANS TOTALING DOLLARS 56,678,985.

17 OF WHICH DOLLARS 56,368,981.56 IS PRINCIPAL AND DOLLARS 310,003.61 IS INTEREST. THE ARREARAGES ON SOME OF THESE LOCAL CURRENCY LOANS DATE BACK TO 1967. CLEARING UP THESE ARREARAGES IS IMPORTANT TO ESTABLISH EGYPTIAN CREDITWORTHINESS WITH CONGRESS. TREASURY AND STATE ARE REQUESTED TO TESTIFY BEFORE CONGRESS AT LEAST TWICE ANNUALLY REGARDING BILLS DUE AND UNPAID. EGYPT IS VERY PROMINENT ON THE LIST OF COUNTRIES WITH OUTSTANDING ARREARAGES. EXISTENCE OF ARREARAGES IN PRINCIPAL OR INTEREST COULD HINDER USG OBTAINING CONGRESSIONAL APPROVAL FUNDS REQUESTED FOR ECONOMIC ASSISTANCE TO EGYPT. AS BULK OF ARREARAGES ARE IN LOCAL CURRENCY PROMPT PAYMENT OF THESE SUMS WOULD HAVE NO EFFECT ON EGYPTIAN ECONOMY AS USG COULD NOT SPEND THEM FOR A NUMBER OF YEARS. EGYPT IS ON EXCESS CURRENCY COUNTRY LIST. USG ALREADY HAS ENOUGH EGYPTIAN POUNDS TO MEET FORESEEABLE USG EXPENDITURES THERE FOR AT LEAST THREE YEARS.

3. INTEREST RATE ON USG LOCAL CURRENCY DEPOSITS IS IMPORTANT TO USG AS MATTER OF PRINCIPLE. AS NOTED IN REFTEL AND BY BENNETT IN MEETING WITH ZANDOU NEGLIGIBLE INTEREST RATES ON US DEPOSITS OF EGYPTIAN POUNDS RESULTS IN ANOMALOUS SITUATION IN WHICH WE ARE EARNING MORE IN DEFAULT SITUATION. THIS ALSO RAISES QUESTIONS IN CONGRESS AND ELSEWHERE AS TO DESIRABILITY OF PL-480 LOANS.

4. GIVEN THESE CONGRESSIONAL CONCERNS, AND SINCE HIGHER INTEREST RATE ON SUCH DEPOSITS WOULD NOT AFFECT EGYPTIAN CONFIDENTIAL

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ECONOMY FOR REASONS CITED ABOVE WOULD APPRECIATE EMBASSY'S EXPLORING WITH GOE POSSIBILITY OF EGYPTIAN AGREEMENT TO PAY HIGHER INTEREST RATE ON US HOLDINGS, AT LEAST TO FOUR PERCENT LEVEL OF PL-480 LOANS IN QUESTION. ASSUME SUCH APPROACH AT THIS TIME WOULD NOT RPT NOT UNDULY INTERFERE WITH PREPARATIONS CURRENTLY UNDERWAY FOR FAHMY'S VISIT. KISSINGER

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